CURRENTS

WESTERN CANADA'S ECONOMIC BULLETIN

Canada West FOUNDATION

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→ INTERNATIONAL TRAVEL → OVERSEAS VISITORS → DIVERSIFICATION CONUNDRUM

Monthly Highlights

Steady as She Goes

The Canadian economy continues to plug along at a steady but unspectacular rate. For the third quarter in a row, national GDP grew by 0.5% from April to June 2012. Business capital investment continued to drive growth, offset in part by lower government spending and softer exports.

After a weak opening to the year, resources production was strong in the second quarter of 2012, led by oil extraction and a recovery in potash output. Dampening those gains was continued weakness in natural gas and a worrying buildup in farm inventories.

Residential construction is booming across the region, led by Saskatchewan where a surge in both apartment and single-dwelling construction pushed the value of residential building permits up 49% in the second quarter of 2012 compared to last year. BC and Alberta also posted strong gains while Manitoba was only slightly higher.

Alberta continues to be home to Canada's hottest labour market. From January through August, provincial employment was up 3.1% compared to the same period in 2011 – more than three times the Canadian average growth rate. As a result, the provincial unemployment rate fell to 4.4% in August, matching Saskatchewan for the lowest rate in the country.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,323	2,154	542	628	17,514	August
% change from previous month	0.6	0.2	0.9	0.5	0.2	
Unemployment rate (%)	6.7	4.4	4.4	5.4	7.3	August
change in percentage points from previous month	-0.3	-0.2	-0.6	-0.3	0.0	
Participation rate (%)	65.1	73.2	69.8	68.9	66.6	August
Average weekly earnings ($)	873.97	1,070.68	914.27	836.11	898.00	June
% change from previous month	2.6	1.5	1.7	1.6	0.6	
Inflation						
Consumer Price Index (% change from July 2011)	1.1	0.9	1.7	1.8	1.3	July
Economic Activity						
Retail trade ($M)	5,089	5,629	1,441	1,376	38,690	June
% change from previous month	-1.0	-1.3	0.1	0.1	-0.4	
Wholesale trade ($M)	4,588	6,431	1,956	1,350	49,900	June
% change from previous month	0.0	-3.0	-2.0	-1.3	-0.1	
Manufacturing sales ($M)	3,198	5,957	1,216	1,308	48,904	June
% change from previous month	0.0	-2.6	8.0	3.0	-0.4	

Unless otherwise noted, data are seasonally adjusted.
Source: Statistics Canada

Consumer activity is one area of concern so far in 2012. Since January, retail sales have been flat or declining across the region. The sole exception is Saskatchewan where tremendous income gains in recent months have put residents in a spending mood.

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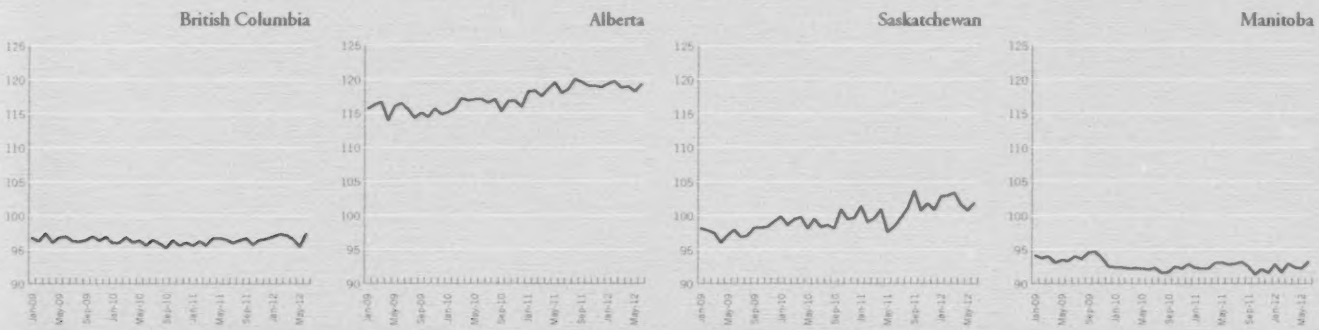
AVERAGE WEEKLY EARNINGS (AS A % OF THE NATIONAL AVERAGE)

Source: Canada West Foundation calculations using Statistics Canada data.



Monthly Feature

International Travel

Buoyed by the higher purchasing power of a strong Canadian dollar, western Canadians are travelling abroad in record numbers. Meanwhile, the exchange rate, in combination with several other factors, is having the opposite effect on international visits to the West.

The increase in the number of foreign trips made by western Canadians in recent years effectively reverses the trend through the 1990s and into the 2000s when the number of westerners who ventured outside the country declined considerably. The decrease at the time was largely due to a steep drop in same-day traffic to the US. While other types of travel remained relatively stable, the sliding Canadian dollar and the rise in e-commerce greatly reduced the number of cross-border shopping trips. Travel hit a low point at the end of 2001 when the dollar was at its weakest and the impact of the September 11th terrorist attacks was still being felt.

Since 2003, however, the pendulum has swung the other way. As the Canadian dollar gained strength, it drove up western Canadians' international purchasing power and made foreign travel significantly cheaper. As a result, the number of western Canadians travelling abroad has risen by nearly 140% since 2003, reaching record levels in June 2012.

Initially the increase in outbound travel came in overnight trips to the US and in overseas vacations. More recently, however, there has also been a sharp increase in same-day traffic to the US, which is up by about 150% since early 2009.

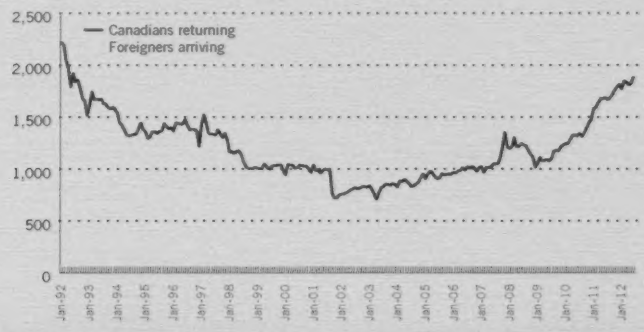
In spite of this rapid growth in same-day travel to the US, we are unlikely to see a return to the early 1990s when cross-border shopping was front-page news in Canada. Same-day trips to the US remain 31% below the levels seen 20 years ago – a time when there were 2.5 million fewer people living in the region.

While more and more western Canadians are travelling abroad, the opposite is true about the number of visitors coming to the region. Since August 2001, the total number of foreign visits to the western provinces has fallen by 37%. That decline is almost entirely the result of a drop in the number of US vacationers. The combination of a less favourable exchange rate making Canadian destinations more expensive, a sluggish US economy and the introduction of new passport requirements are all factors behind the decline. Meanwhile, the number of overseas visitors to the region has remained largely unchanged over the past decade.

The good news is that there are signs of optimism for western Canada's tourism industry so far this year. In the first six months of 2012, the number of US-based travellers to the region is up by 1.2% compared to the same period last year. Meanwhile, overseas visits are up 3.5%. This trend is reflected in higher occupancy rates in the region's hotels through the spring, although data for the all-important summer months is yet to come.

81%
of foreign travellers to the West arrive via BC.

TRAVELLERS TO WESTERN CANADA (000s)



Source: Canada West Foundation calculations using Statistics Canada data.

DID YOU KNOW?

The Vancouver Olympics caused a 25% spike in international visits to BC in February 2010. However, the number of foreign visitors immediately reverted back to trend levels in March and has been essentially flat since that time.

In June 2012, a record 1.9 million Canadians returned to the West from the US and overseas destinations. More than three quarters arrived in BC, where the number of Canadians returning from international trips is up 65% since January 2010.

When the US imposed passport requirements on all motor vehicle travellers in June 2009, it had an immediate and significant effect on tourism in western Canada. From May 2009 to July 2009, the number of US visitors crossing the border by automobile fell by 15.7%.

BEHIND THE NUMBERS

Europe is the source of most overseas visitors to the Prairies but Asia dominates in BC.

BC's position as Canada's gateway to the Pacific is evident in the origin of the overseas (non-US) tourists it attracts. Aided by numerous direct flight connections, Asia-Pacific accounts for seven of BC's ten most important sources of overseas tourists and 46% of all non-US travellers to the province. By contrast, 71% of overseas visitors to the Prairies come from Europe.

However, the face of tourism is changing across the region. British residents remain the most frequent visitors to the West, but their numbers have dropped significantly. A similar trend is taking place for Japanese tourists. By contrast, the number of visitors from Australia and developing Asian countries has grown considerably. Australia is now the second-largest source of overseas visitors to the West.

A unique situation exists in Manitoba, where, because of historic immigration ties, tiny Iceland is a major source of tourist traffic.

10%

of overseas travellers to Manitoba in 2011 came from Iceland.

TOP 10 SOURCES OF OVERSEAS (NON-US) TRAVELLERS IN 2011

BRITISH COLUMBIA

	number	% growth since 2006	% of total
UK	204,191	-13.1	14.7
Australia	160,696	24.0	11.6
China	139,334	47.5	10.1
Japan	106,964	-50.9	7.7
S. Korea	95,909	-25.0	6.9
Germany	80,843	-2.0	5.8
Hong Kong	78,332	7.7	5.7
Mexico	59,106	-9.5	4.3
India	46,599	81.6	3.4
Philippines	45,177	25.9	3.3
Others	368,337	-2.8	26.6
Total	1,385,418	-4.5	100.0

ALBERTA

	number	% growth since 2006	% of total
UK	91,759	-26.1	33.5
Germany	33,275	6.0	12.2
Netherlands	15,829	2.6	5.8
Japan	14,740	-38.3	5.4
Australia	13,486	10.0	4.9
Switzerland	8,763	21.3	3.2
India	8,139	173.7	3.0
France	7,118	64.1	2.6
Mexico	6,537	-19.5	2.4
Italy	4,089	42.2	1.5
Others	69,831	24.3	25.5
Total	273,566	4.3	100.0

SASKATCHEWAN

	number	% growth since 2006	% of total
Australia	483	323.7	12.8
UK	473	-5.4	12.5
Germany	333	116.2	8.8
Mexico	288	44.7	7.6
Netherlands	236	87.3	6.2
Japan	178	56.1	4.7
Sweden	121	255.9	3.2
Norway	113	39.5	3.0
South Africa	106	324.0	2.8
France	88	151.4	2.3
Others	1,362	73.3	36.0
Total	3,781	74.4	100.0

MANITOBA

	number	% growth since 2006	% of total
UK	1,979	-43.2	16.8
Germany	1,552	26.5	13.2
Iceland	1,178	218.4	10.0
Australia	897	33.7	7.6
Mexico	593	-48.0	5.0
Netherlands	532	-4.0	4.5
France	338	70.7	2.9
Sweden	332	122.8	2.8
Japan	327	-54.5	2.8
Ireland	289	28.4	2.5
Others	3,742	20.0	31.8
Total	11,759	-0.8	100.0

Source: Canada West Foundation using Statistics Canada data.
Note: Data refer to non-resident travellers entering Canada by province of arrival. Foreign tourists may enter a province via connecting domestic flights or other means.

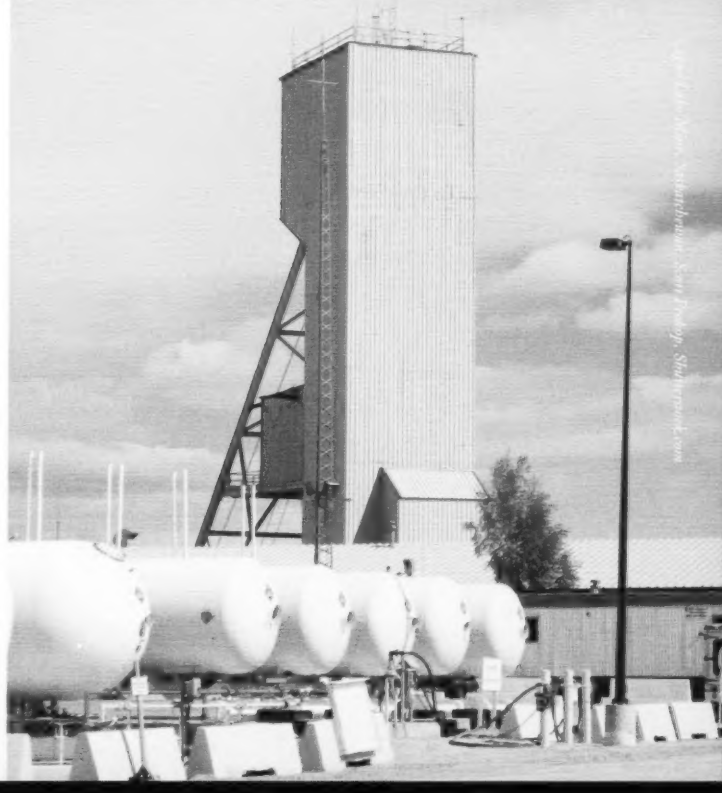
Energy Focus: Saskatchewan

Proposed Uranium Mine Development

After more than six years of study, the federal government has approved the environmental assessment of the Midwest uranium project in Saskatchewan.

The Midwest proposal, by AREVA Resources Canada Inc., calls for a new mine in the eastern Athabasca Basin, located about 750km north of Saskatoon. The ore would be processed at AREVA's McClean Lake uranium mill, which is already being upgraded to process uranium ore from the Cigar Lake mine, expected to begin production next year.

Even though the company has secured the go-ahead from the provincial and federal government, there are no guarantees that the project will get underway in the near future. The economics of uranium production have changed significantly over the past six years as uranium prices have fallen while development costs have increased. For this reason, AREVA will undertake an updated feasibility study to ensure that the project will be commercially viable before making a decision on if and when it will proceed.



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OPINION

BY MICHAEL HOLDEN, SENIOR ECONOMIST

The Catch-22 of Economic Diversification in Western Canada

Western Canadians owe their prosperity in no small measure to the region's vast endowments of natural resources. Whether it be Alberta's oil sands, Saskatchewan's potash, Manitoba's hydro capacity, BC's mines and forests or any of the myriad other resources at our fingertips, living off the land (and what's under it) has served us well.

At the same time, however, we have always had something of a schizophrenic attitude toward our dependence on natural resources. While with one breath we acknowledge that our current prosperity is the result of our resource wealth, with the next we lament our reliance on natural resources and worry that we need to diversify our economy and become less reliant on the export of raw materials.

There are many reasons why broadening our economic base is a good idea. For one, resource-based industries are often subject to gut-wrenching volatility. The boom-bust cycle that most of us in the West know so well (Manitobans are a notable exception) causes profound and often underestimated economic damage. While the downside to the troughs is obvious, even the peaks can have negative consequences: for example, labour shortages in boom times create delays and drive up the costs of making new investments and expanding existing activity. Volatility also makes it hard for governments and businesses to plan beyond a short time horizon because economic conditions can turn on a dime.

A second reason is that even though we have considerable untapped resource potential in the region, much of that wealth is non-renewable. At some point, our oil and gas will run out, will no longer be cost-effective to recover or will gradually be replaced by alternative energy sources. For many, diversification is the answer to the question "what do we do when our resources are depleted (or become uneconomical to extract)?"

Finally, there is the issue of value-added activity. Some argue that western Canadians have built their collective livelihood around selling their goods at their lowest point on the value chain (crude oil, grains, raw metals and minerals, etc.) and then buying them back at the highest point (finished goods). Performing more value-added work on our resources not only allows us to move up the value chain, but also smoothes out the overall effect of commodity price swings, since raw materials and resources would become inputs into production as well as outputs.

So if diversification offers so many benefits, why is it not higher up on the list of priorities? The issue, and this gets back to our schizophrenic attitude toward diversification as a goal in the West, is that resource dependence is only considered to be a "problem" when times are bad. During economic booms, no one is particularly concerned about overreliance on natural resources since those resources are usually driving the boom in the first place.

By contrast, when the market for resources and raw materials goes south (as it inevitably does), western Canadians are suddenly confronted with the flip side of resource dependence. Even though the benefits of a more diversified economy suddenly become obvious under the harsh light of a commodity price crash, two new problems appear. The first is that the duration of a typical economic downturn is a lot shorter than the time it would take for diversification efforts to have any impact. In other words, when the problem appears, it's already too late for diversification to help.

Second, our ability to diversify during tough economic times is hamstrung by a lack of resources and the emergence of more pressing priorities.

In short, when times are good, economic diversification seems unnecessary, but when times are bad, we are too busy just trying to get by to focus on diversification. It's like having a hole in your roof: when it's sunny outside, you don't bother fixing it and when it's raining, you can't. Western Canada is presently outperforming the rest of the country economically, so solving this riddle is not high on the current list of priorities. In the long-term, however, we avoid it at our peril.

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